

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 7/26/2017

GAIN Report Number: ID1718

Indonesia

Oilseeds and Products Update

Indonesia Oilseeds and Products Update July 2017

Approved By:

Thom Wright

Prepared By:

Thom Wright, Arif
Rahmanulloh

Report Highlights:

Indonesian palm oil production is expected to benefit from favorable weather conditions in the upcoming months, fueling production increases. Based on favorable weather conditions, Post maintains its Indonesian palm oil production estimate at 36.5 MMT in MY 2017/18 and 34 MMT in MY 2016/17. January-May 2017 Indonesian palm oil product exports were 29 percent higher than the corresponding period in 2016. 2016/17 exports are thus revised up to 25.5 MMT and 2017/18 exports are revised to 26.5 MMT. Post revises MY 2016/17 soybean imports up to 2.37 MMT based on increased imports in advance of the Ramadan period. The MY 2017/18 estimate remains unchanged at 2.45 MMT.

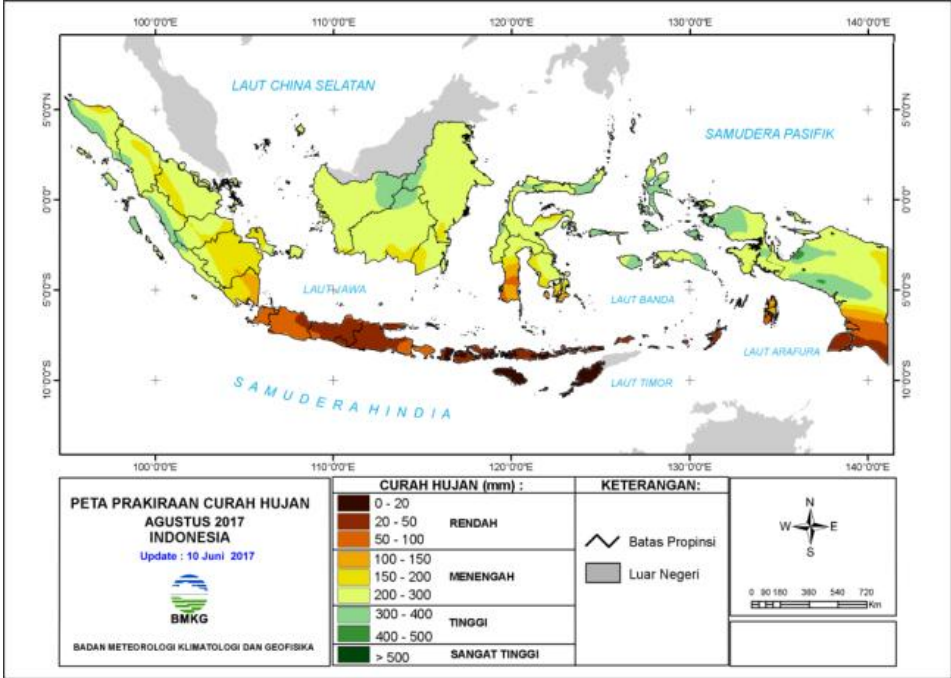
Post:
Jakarta

Oil, palm

Production

Indonesian palm oil production is expected to benefit from favorable weather conditions in the upcoming months, fueling production increases following poor weather in 2016. The Climate Prediction Centre (CPC/IRI) reported warmer than average sea surface temperatures in the east-central Pacific Ocean during June 2017. Despite warm sea temperatures however, the CPC favors neutral weather conditions slightly over an El Nino event, with the probability of an El Nino event declining over time. Local weather agency (BMKG) forecasts medium precipitation (100-300 mm) will hit the eastern coast of Sumatera and most of Kalimantan (Figure 1). As a result of these favorable weather conditions, Post maintains its Indonesian palm oil production estimate at 36.5 MMT in MY 2017/18 and 34 MMT in MY 2016/17.

Figure 1. BMKG forecast on rainfall in August 2017



Source: BMKG

Indonesian palm area expansion has slowed as minimal lands remain available for planting in Sumatera and Kalimantan. Current plantings are focused on replanting using higher-yielding cultivars, while other new planting may also be originating from smallholders converting rubber plantations to palm oil, a change fueled by low rubber prices. Overall planting expansion is thus occurring at a rate of less than one percent. This is further verified by NGOs using satellite imaging to monitor deforestation.

Consumption

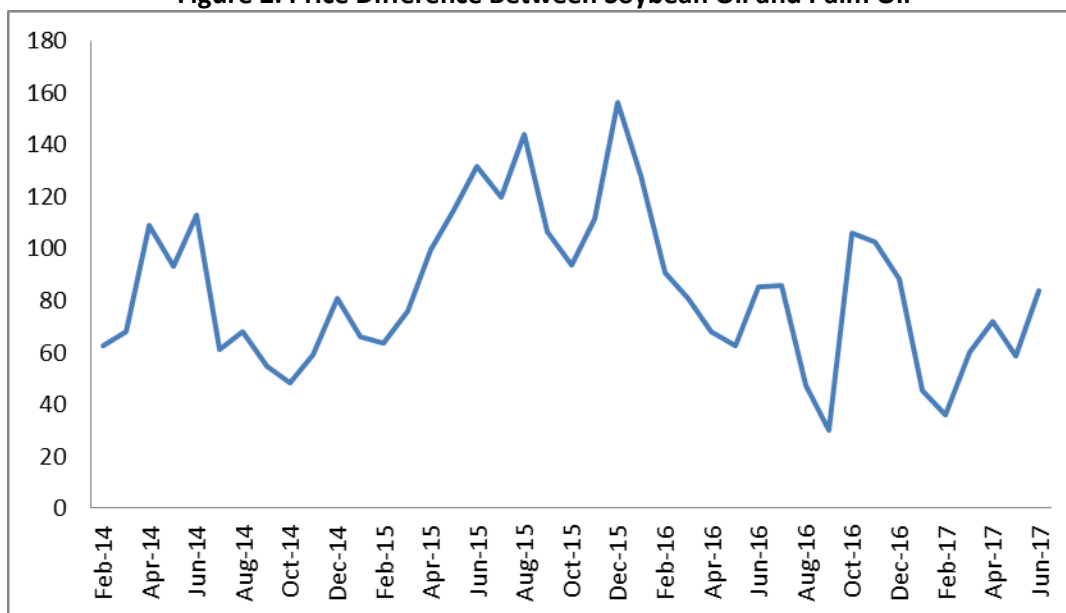
Indonesian CPO consumption is divided between cooking oil and biodiesel. Indonesian demand for biodiesel is supported through the Indonesian biofuel industry's palm oil levy, the revenues of which are primarily used to offset the domestic price spread between fossil diesel and biodiesel. Under this program, Indonesia has achieved blending rates close to 20 percent, the highest in the world. The Oil Palm Plantation Fund Management Agency (BPDPKS), (charged with managing the fund), reports that funds collected through the levy in 2016 reached IDR 11.7 trillion (USD 874 million). More than 90 percent of the fund was used for the biodiesel blending program, thus covering 3.1 MMT of biodiesel for domestic consumption in 2016. As of May 2017, BPDPKS has collected IDR 5.5 trillion (USD 410 million) from the export levy.

Post revises its 2016/17 industrial consumption estimate up to 3.7 million. This upward revision is based on Ministry of Energy and Mineral Resources (MEMR) data which notes that biodiesel production is increasing. Specifically, 2016/17 biodiesel production is on a similar pace as in 2015/16. However, production in October, November, and December of 2015 was down by approximately 200,000 MT due to the El Nino event and low CPO supplies. The corresponding period in 2016 is expected to reach higher levels due to more optimal palm oil production conditions. However, MEMR announced procurement levels down to 1.1 MMT (from the average procurement of 1.3 MMT) for the May to October period of 2017, implying that consumption will not fully recapture the 200,000 MT tons lost in 2015. Post therefor increases its 2016/17 industrial consumption estimate by 100,000 MT. Post expects that 2017/18 consumption will further increase to 3.8 MMT, assuming normal CPO production. Overall palm oil consumption is thus set at 9.74 MMT in 2016/17 and 9.895 in 2017/18.

Trade

Palm oil prices declined steadily in 2017, reaching \$621 per MT in June from \$726 per MT in early 2017. Low palm oil prices appear to be the result of supply side changes as CPO production recovers from the 2015/16 El Nino. In correlation with declining CPO prices, the palm oil/soybean oil price spread has grown, reaching \$84 per MT in June 2017, from \$45 per MT in January 2017. (Note: in the last two years the CPO/soybean oil spread peaked at \$157 per MT in December 2015 and fell to its closest at \$30 per MT in September 2016. See Figure 2).

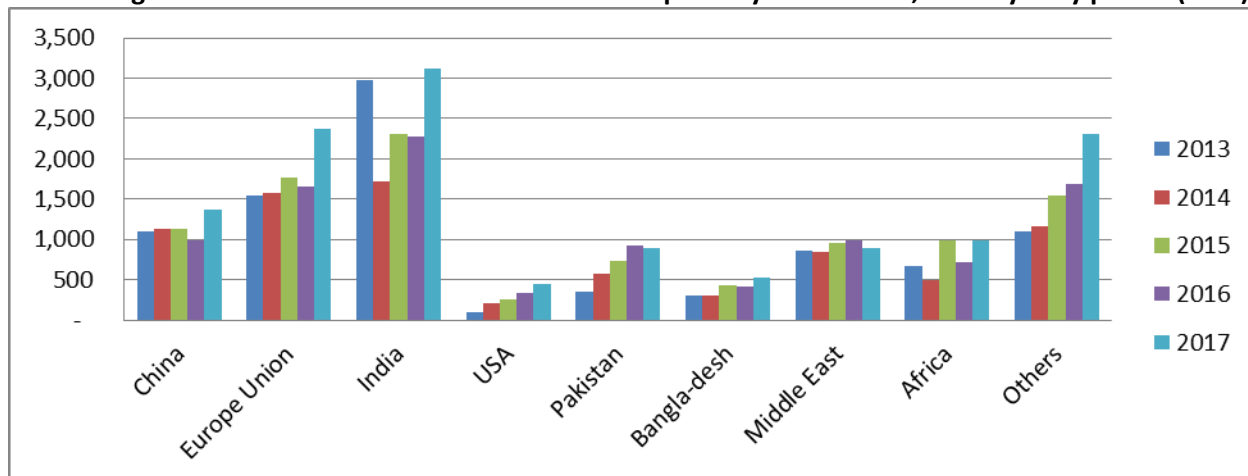
Figure 2. Price Difference Between Soybean Oil and Palm Oil



source: indexmundi

January-May 2017 Indonesian palm oil product exports were 29 percent higher than the corresponding period in 2016. Increasing exports were led by India, which were 818 thousand MT higher in January-May 2017 (Figure 3), attributable to declining palm oil prices during the first half 2017. Based on export performance in the first half of 2017, Post expects exports to increase. Therefore, 2016/17 exports are revised up to 25.5 MMT and 2017/18 exports are revised to 26.5 MMT.

Figure 3. Indonesia Palm Oil and Kernel Oil Exports by Destination, January-May period (TMT)



Source: GAPKI

Stocks

Considering increasing export performance and strong domestic consumption, Post revises its ending stock estimate to 1.077 MMT in MY 2016/17. 2017/18 ending stocks are slightly increased to 1.182 MMT, considering increased production estimates. GAPKI, the Indonesian palm oil producer's association, also confirms that stocks are declining for the cited reasons.

Production, Supply and Demand Statistics

Oil, Palm Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct-15		Oct-16		Oct-17	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Indonesia						
Area Planted		0	0	0	0	0
Area Harvested	8965	8965	9200	9200	9300	9300
Trees	0	0	0	0	0	0
Beginning Stocks	2734	2734	2409	2317	1939	1077
Production	32000	32000	34000	34000	36000	36500
MY Imports	8	8	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	34742	34742	36409	36317	37939	37577
MY Exports	22905	22905	25000	25500	25500	26500
MY Exp. to EU	3500	3200	3500	3400	2800	3500
Industrial Dom. Cons.	3600	3600	3600	3700	3650	3800
Food Use Dom. Cons.	5500	5600	5550	5700	5600	5750
Feed Waste Dom. Cons.	328	320	320	340	350	345

Total Dom. Cons.	9428	9520	9470	9740	9600	9895
Ending Stocks	2409	2317	1939	1077	2839	1182
Total Distribution	34742	34742	36409	36317	37939	37577
		0		0		0
(1000 HA) ,(1000 TREES) ,(1000 MT)						

Oilseed, soybean

Production

According to the Indonesian Statistics Agency (BPS), soybean planted area has declined in the first half of 2017. This trend is fueled by increasing corn prices and more stable returns, enticing farmers away from soybeans when possible. The planting switch from soy to corn is further supported by a return to wetter planting conditions. The 2015/16 El Nino event resulted in drier weather, which disfavored dryland corn plantings. Post's soybean production estimate thus remains stable at 565,000 MT in MY 2016/17 and 540,000 MT in MY 2017/18.

More than 60 percent of Indonesia soybean production is on Java. The remainder is spread throughout West Nusa Tenggara (13 percent) and other islands. Soybean is typically planted as a dry season leguminous crop between paddy and corn plantings.

Consumption

Indonesian soybean consumption is dominated by the human food category, with soybeans being used in the manufacture of tempeh and tofu. As low cost staple proteins, their consumption is stable, allowing for growth based on population increases. Given these factors, Post's soybean consumption estimate remains unchanged, reaching 2.86 MMT in MY 2016/17 and 2.95 MMT in MY 2017/18.

Trade

Indonesia's soybean consumption is largely met by imports as local production is limited. More than 95 percent of imported soybeans originate in the United States, as US beans meet Indonesian tempeh producer's requirements.

MY 2015/16 is revised to 2.274 MMT, reflecting final trade data. Trade data shows shipments to Indonesia during the October 2016 to April 2017 period are 15 percent higher compared to corresponding period in the previous year. Trade contacts indicate no major disruptions are expected in the coming year. Post revises MY 2016/17 imports up to 2.37 MMT based on increased imports in advance of the Ramadan period. This is further supported by trade data from GTIS. The MY 2017/18 estimate remains unchanged at 2.45 MMT.

Table 1. Indonesia Soybean Imports, Reported by Exporters

	2015/16	2016/17
October	84,818	148,653
November	214,263	240,933
December	123,659	343,877
January	167,437	213,442
February	298,402	274,254
March	269,444	256,634

April	327,181	229,488
May	161,635	
June	160,070	
July	128,308	
August	215,377	
September	144,725	
Oct-April Total	1,485,204	1,707,281
Total	2,295,319	

Source: GTIS

Stocks

As Indonesian soybean production soybean decreases, imports and consumption are growing. MY 2016/17 ending stocks are thus revised up to 122,000 MT while MY 2017/18 ending stocks are revised down slightly to 121,000 MT.

Production, Supply and Demand Statistics

Oilseed, Soybean Market Begin Year	2015/2016		2016/2017		2017/2018	
	Oct-15		Oct-16		Oct-17	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Indonesia						
Area Planted	490	490	480	480	450	470
Area Harvested	440	440	430	430	420	420
Beginning Stocks	65	65	64	88	63	122
Production	580	580	565	565	540	540
MY Imports	2274	2274	2400	2370	2600	2450
MY Imp. from U.S.	2251	2251	2300	2350	2400	2400
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2919	2919	3029	3023	3203	3112
MY Exports	1	1	1	1	2	1
MY Exp. to EU	0	0	0	0	0	0
Crush	0	0	0	0	0	0
Food Use Dom. Cons.	2824	2800	2935	2860	3100	2950
Feed Waste Dom. Cons.	30	30	30	40	41	40
Total Dom. Cons.	2854	2830	2965	2900	3141	2990
Ending Stocks	64	88	63	122	60	121
Total Distribution	2919	2919	3029	3023	3203	3112
		0		0		0

(1000 HA) ,(1000 MT)